

**SACRAMENTO METROPOLITAN
AIR QUALITY MANAGEMENT DISTRICT**

For Agenda of **February 24, 2005**

To: Board of Directors
Sacramento Metropolitan Air Quality Management District

From: Norm Covell; Air Pollution Control Officer
Sacramento Metropolitan Air Quality Management District

Subject: Amendment to Rule 202, New Source Review

Recommendations

1. Recognize the Categorical Exemption for the revisions of Rule 202 pursuant to the California Environmental Quality Act (CEQA); and
 2. Approve the attached resolution adopting the amendments to Rule 202.
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Executive Summary

Rule 202 sets the requirements for reviewing permit applications for new and modified sources and the requirements for Best Available Control Technology (BACT) and offsets. The rule also sets the calculation procedures for emission increases and reductions associated with new and modified stationary sources and/or emission units. The rule was first adopted on September 20, 1976 and was last amended on January 24, 2002.

As required by the amendments to the State Transport Mitigation Control Requirements adopted in May 2003, Staff is proposing the following changes to Rule 202:

1. Lower the NO_x and ROC offset trigger levels for stationary sources from 15 tons per year to 10 tons per year (tpy).
2. Set an emission offset ratio for non-major stationary sources with cumulative emission increases of 5000 lbs/quarter (10 tpy) but less than 7500 lbs/quarter (15 tpy) to 1.0 to 1.0.

A public workshop on the rule amendments was held on January 20, 2005. Staff received written comments from ARB and Office of State Publishing. Staff made a change to Section 112 of the rule to address ARB's comment.

Attachments

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Background

Rule 202 sets the requirements for reviewing permit applications for new and modified sources and requirements for Best Available Control Technology and offsets. The rule also sets the calculation procedures for emission increases and reductions associated with new and modified stationary sources and/or emission units.

Transport Mitigation Control Requirements adopted by the California Air Resources Board in May 2003 require upwind districts in a transport couple, as identified in California Code of Regulations Section 70500(c), to include sufficient emission control measures in their state ozone attainment plans to mitigate their impacts on ozone concentrations in downwind areas as required by state law (Health and Safety Code Section 39610(b)). The amended ozone transport mitigation regulation requires districts to implement by December 31, 2004, a stationary source permitting program designed to achieve no net increase in the emissions of ozone precursors from new or modified stationary sources that emit or have the potential to emit 10 tons or greater per year of an ozone precursor. Proposed Rule 202 will comply with the 10 tons per year no net increase requirements. Sacramento can be an upwind district to San Joaquin Valley, Bay Area, and Mountain Counties depending on the weather on a given day.

Cost Impact

Impact on Businesses in Sacramento: Proposed amendments to Rule 202 will require offsets for all cumulative increases in NOx and ROC emissions at or above 10 tons per year. The cost of emission credits for offsets varies depending on the supply and demand for the credits. In recent transactions, the cost of one ton of ROCs ranges from \$21,000 - \$28,000 and the cost of one ton of NOx ranges from \$23,000 - \$32,000 per one ton.

There are currently 253 sources with potential emissions greater than 10 tons per year of either NOx or ROCs. These include auto body paint and repair shops, graphic arts operations, manufacturing operations, hospitals, prisons, universities, and some county facilities.

The actual impact to businesses in the District is not known and will depend on the number of businesses that will modify their operations in the future and trigger the offset requirements. The number of permitting actions that need offset credits may increase by about 10% based on prior years permitting actions. Some of these sources may choose

to take a 10-ton per year limitation rather than provide credits. Staff does not know how many of these facilities will take a permit limit below the offset trigger levels and how many will require offset credits.

ARB analyzed the cost impacts to businesses as part of their amendments to the ozone Transport Mitigation Regulations, and estimated a potential cost impact of \$11,000 - \$23,000 per affected business. Those costs are speculative since prices are market driven and businesses may have options to reduce their costs. ARB found that California businesses should be able to absorb any costs of the proposed regulatory action without significant adverse impacts on their profitability. Staff agrees with ARB's findings.

Emissions credits are available from the Community Bank or the Priority Reserve Bank to be used as emission offsets. The banks have a total of 497 tons of ROC and 93 tons of NOx available for use as offsets.

District Impacts

Staff does not anticipate an additional need for staff resources due to the lowering of the offset trigger levels.

Emission Impacts

Staff cannot estimate additional emission reductions because staff cannot predict how many sources will be required to comply nor how much mitigating offset credits would be required. Since the proposed amendments set lower offset trigger levels, it will result in an overall benefit to air quality in the District.

Environmental Review and Compliance

The District's Environmental Coordinator has reviewed the proposed amendments to Rule 202 and has determined that the proposed amendments are exempt from the California Environmental Quality Act (CEQA) as an action under Section 15308 of the State CEQA Guidelines- Actions by Regulatory Agencies for Protection of the Environment.

California Public Resources Code (Section 21159) requires an environmental analysis of the reasonably foreseeable methods of compliance. The Environmental Coordinator has concluded that no reasonably foreseeable environmental impacts will be caused by adoption of the amendments of the proposed rule.

Public Comments

Notice of the Public Hearing was published in the newspaper. Copies of the notice were mailed to approximately 1200 affected businesses and others who requested it. The rule was also sent to ARB and EPA for review and comment. Staff held a public workshop on January 20, 2005. Staff received comments from ARB, and Office of State

Publishing (OSP). Staff made a change to the rule to address ARB's comment.

In general, OSP commented that the reduction in the offset trigger limits for ROC will increase the financial burden on OSP to maintain regulatory compliance, and can be a prohibiting factor regarding future expansion or modification. OSP has already been required to provide offset credits and is concerned about price increases from increased demand by other sources. However, dropping the offset trigger levels in 1996 did not result in an increase in the cost of emission credits. Additionally, the District's Community Bank administered under Rule 205, Community Bank and Priority Reserve Bank currently has 260 tons of ROCs for allocation should OSP desire expansion or modification. Based on this, in recent staff discussions, OSP indicated they have no adverse comments on the proposed rule changes.

Conclusion

The proposed amendments to Rule 202 are necessary to comply with the state Transport Mitigation Control Requirements. Therefore, Staff recommends that the Board approve the proposed amendments to Rule 202.

Respectfully Submitted

Larry Greene; Air Pollution Control Officer
Sacramento Metropolitan
Air Quality Management District

Attachments